

2002 MAINE

CORPORATE INCOME TAX

BOOKLET

INCLUDES FORMS:

1120A-ME

1120ME

COMBINED REPORT – FORM CR

1120X-ME

1120W-ME

1120ES-ME

NEW FOR 2002

NET OPERATING LOSS. (36 M.R.S.A. §§ 5200-A(1)(H) & 5200-A(2)(H)). For net operating loss carrybacks arising from taxable years beginning on or after January 1, 2002, the federal taxable income of the carryback year must be increased by the amount of the federal NOL carryback to that year. Federal taxable income may be decreased in the year or years following the year of the loss in an amount which in the aggregate does not exceed the add-back required by the previous sentence. The subtraction modification may not be used to reduce Maine taxable income below zero and must be claimed within the allowable carryover period for NOLs. *See* P.L. 2001, c. 559, Pt. J.

30% BONUS DEPRECIATION ADD-BACK. (36 M.R.S.A. §§ 5200-A(1)N) & 5200-A (2)(M)). For tax years beginning in 2002, 2003 and 2004, the net effect of the federal 30% bonus depreciation must be added back for state income tax purposes. One-third of the required add-back may be used to reduce taxable income for each of the three tax years beginning two years after the taxable year of the add-back. However, the add-back relating to 3-year property may be fully recovered in the tax year beginning two years after the taxable year of the add-back. All bonus depreciation claimed for tax year 2001 is allowed on the Maine return. *See* P.L. 2001, c. 559, Pt. GG Sections GG-10, GG-12, GG-15, GG-18 & GG-26.

SEE OTHER IMPORTANT CHANGES ON PAGES 31 & 32

QUESTIONS?

C-Corporation
S-Corporation, Partnership
& Individual

207-624-9670

E-mail: corporate.tax@state.me.us

Withholding Tax

207-626-8475

E-mail: income.tax@state.me.us

Sales Tax

207-626-8475

E-mail: withholding.tax@state.me.us

To order forms:

207-624-9693

E-mail: sales.tax@state.me.us

For general information and downloadable forms, visit our Web site:

207-624-7894

www.maine.gov/revenue

MAINE REVENUE SERVICES PRIVACY POLICY

Maine Revenue Services (“MRS”) maintains the highest standards in handling personally identifiable taxpayer information. Taxpayers have the right to know what information is kept on file about them, to have reasonable access to it, and to receive a copy of their file. Under penalty of law, employees and agents of MRS are prohibited from willfully inspecting information contained on any tax return for any purpose other than the conduct of official duties. In addition, MRS employees and agents are prohibited from disclosing tax information to anyone other than the taxpayer except in a limited number of very specific circumstances. 36 M.R.S.A. § 191. Communications that do not meet

the definition of tax information are subject to the general confidentiality and public inspection provisions of Maine’s “Freedom of Access” laws. When confidential taxpayer information is stored by MRS, it is kept in a secure location where it is accessible only to authorized employees and agents of MRS. No unassociated third parties may receive information pertaining to tax returns without written permission from the affected taxpayer. If you have any questions regarding the Privacy Policy, please contact MRS at (207) 626-8475.

CORPORATIONS REQUIRED TO FILE

CORPORATIONS SUBJECT TO INCOME TAX: Every entity (including exempt organizations) must file Form 1120ME and pay the applicable Maine corporate income tax if it meets the following criteria:

1. The entity is subject to federal income tax as a corporation; and
2. The entity realizes Maine net income.

Maine Net Income. Maine net income is the taxpayer’s federal taxable income modified by Maine law and apportionable to Maine. A taxpayer is subject to tax if the taxpayer conducts business in Maine or owns or uses property in Maine in a corporate capacity.

NEXUS: Nexus is having sufficient connection with a jurisdiction to subject the corporation to taxation. Nexus is generally created by physical presence or by conducting business within the taxing jurisdiction. *See generally MRS Rule 808, Corporate Income Tax Nexus.*

Conducting Business in Maine. Without limitation, a corporation conducts business in Maine if it engages in any of the following activities in this state:

1. Maintains an office or other place of business;
2. Executes a contract;
3. Exercises or enforces contract rights;
4. Buys, sells, or procures services or property; or
5. Employs labor.

Owning or Using Property. Without limitation, a corporation owns or uses property in Maine if it:

1. Owns property that is held by another person in this state under a lease, consignment, or other arrangement;
2. Uses in this state property that it holds under a lease, license or other arrangement; or
3. Maintains a stock of goods in this state.

Exception for Certain Activities under U.S. Public Law 86-272. A foreign corporation that does business in Maine or owns or uses property in Maine is not subject to Maine income tax if its only activities in Maine are those set forth as exempt in U.S. P.L. 86-272 (15 U.S.C §§ 381-384).

a. Solicitation Activities. P.L. 86-272 precludes Maine from imposing a tax on the income of a foreign corporation if the sole activity of the corporation in this State is the solicitation by the corporation’s representatives (in the name of the corporation or in the name of a prospective customer) of orders for the sale of tangible personal property, provided that the orders are sent outside of the State of Maine for approval or rejection, and provided that the orders are filled by shipment or delivery outside of Maine.

Limitations. P.L. 86-272 restricts a state’s tax jurisdiction with respect to sales solicitation activities only if the taxpayer’s activity is limited to solicitation of orders for the sale of **tangible personal property**. P.L. 86-272 does not afford protection in the following circumstances:

1. A **combination** of solicitation activities and non-solicitation activities in Maine;
2. The solicitation of orders for the sale or provision of **services**, either standing alone or in combination with the solicitation of orders for tangible property. Some examples of the combined sale of services and

tangible personal property are photographic development and the provision of architectural or engineering services; and

3. The solicitation of orders for the sale, lease, rental, license, or other disposition of **real property** or **intangibles**.

b. De Minimis Activities. Non-solicitation business activities conducted by a corporation in Maine will not subject the corporation to taxation if the activities, taken together, are *de minimis*.

For additional information, see MRS Rule 808 at www.maine.gov/revenue.

CORPORATIONS NOT SUBJECT TO MAINE CORPORATE INCOME TAX:

The following corporations are not subject to Maine corporate income tax: S corporations (except those with federal taxable income at the corporate level); insurance companies that are subject to, or would be subject to, tax under 36 M.R.S.A. §§ 2512 - 2526 (insurance premiums tax and fire investigation and prevention tax), except insurance companies that operate HMOs (*see* 36 M.R.S.A. §§ 5102(6) and 5202-C); and banking institutions that are subject to franchise tax (*see* b. below). Corporate **small business investment companies**, licensed under the United States Small Business Investment Act of 1958 that are commercially domiciled in Maine and do business primarily in Maine are also not subject to this tax.

a. LIMITED LIABILITY COMPANIES. Maine law allows for the formation of limited liability companies. It provides that a domestic LLC or foreign LLC doing business in Maine is classified as a partnership for Maine income tax purposes, unless classified otherwise for federal income tax purposes, in which case the LLC is classified in the same manner for Maine income tax as for federal income tax purposes.

b. BANKING INSTITUTIONS SUBJECT TO FRANCHISE TAX. Every corporation that is a financial institution, except a credit union, any service corporation or subsidiary as defined in 9-B M.R.S.A. § 131, and any financial institution holding company that is doing business in this state must file Form 1120B-ME and pay Maine franchise tax. This requirement also applies to any financial institution organized as an S corporation, partnership, or entity disregarded as separate from its owner. **Do not use Form 1120ME.** Form 1120B-ME is available at www.maine.gov/revenue.

FILING REQUIREMENTS FOR S CORPORATIONS AND PARTNERSHIPS: S

corporations and partnerships, except financial institutions, that have Maine-source income or that have resident shareholders or partners are required to file an information return consisting of Form 1065ME/1120S-ME, a copy of the federal return and federal Schedules K-1. If you are filing a return for an S corporation that is not subject to tax at the corporate level, do not file Form 1120ME.

Shareholders and partners are subject to Maine income tax. Those who are nonresident individuals and who have no other Maine-source income may satisfy the filing requirement with a composite return. In that event, the entity must file a return on behalf of its nonresident shareholders or partners using Form 1040ME labeled “composite return.” For additional information, *see MRS Rule 805* and instructions on the MRS Web site.

S corporations that incur federal taxable income (e.g. certain capital gains and certain built-in gains) at the corporate level are required to file Form 1120ME and report only the income that is taxed at the corporate level for federal purposes on Form 1120ME.

UNITARY BUSINESS COMBINED REPORTING

WHO MUST FILE A COMBINED REPORT (FORM CR)? Taxable corporations that are members of an affiliated group engaged in a multi-corporate unitary business must file a combined report based on the federal taxable income of the unitary business. *See MRS Rule 810.* Corporations that are part of a unitary business but are not required to file a federal income tax return are to be excluded from the combined report.

The combined report must indicate which corporate members have nexus with Maine, and it must include, both in the aggregate and by corporation, the federal taxable income, allowable adjustments, state modifications provided by 36 M.R.S.A. § 5200-A, and sales, payroll, and property values in Maine and everywhere.

Maine defines **affiliated group** to mean a group of two or more corporations of which more than 50% of the voting stock of each member corporation is directly or indirectly owned by a common owner or owners, either corporate or non-corporate, or by one or more of the member corporations.

A **UNITARY BUSINESS** is one that is characterized by unity of ownership, functional integration, centralization of management, and economies of scale. The cumulative effect of these characteristics is analyzed to determine if affiliated businesses are unitary.

UNITY OF OWNERSHIP is generally demonstrated when 50% or more of the voting stock is owned directly or indirectly by a common owner or owners, either corporate or non-corporate, or by one or more of the member entities.

CENTRALIZED MANAGEMENT is indicated when directors, officers, and/or other management personnel jointly participate in management decisions that affect the respective companies. Centralized management still exists when day-to-day management responsibilities are decentralized, as long as the overall strategy of the whole group is affected centrally. Other indicators of centralized management include managing to ensure that the business segments are operated for the benefit of the entire group and not just for their own individual interest, transferring knowledge and expertise among the segments, adhering to common standards of professionalism, profitability and/or ethical practices, and transferring or rotating officers or other management employees among the business segments.

FUNCTIONAL INTEGRATION refers to transfers between, or pooling among, business segments that significantly affect the business operations of the segments. There is no specific type of functional integration that must be present. Facts suggesting the presence of functional integration should be analyzed for their cumulative effect and not in isolation. Functional integration can be illustrated by: common marketing; intercompany sales; exchanges or transfers of products, services or intangibles; common distribution systems; common purchasing; etc.

ECONOMIES OF SCALE exist when companies interact to achieve, or have the potential to achieve, a decrease in the cost of production or in the cost of administrative functions due to the increase in size of the interaction. Economies of scale may exist from the inherent cost savings that arise from the presence of functional integration or centralization of management.

A unitary determination is made by reviewing all the business activities of an affiliated group. A **flow of value** arising from these activities is indicative of multi-corporate unity. A unitary business questionnaire is available at www.maine.gov/revenue to help you determine whether your business operates in a unitary manner.

MAINE NET INCOME OF A UNITARY BUSINESS is determined by apportioning adjusted federal taxable income of those members of the unitary business that are subject to Maine taxation.

RETURNS: Corporate members of unitary businesses may file a single combined return or separate corporate returns. The single return must be filed in the name of the parent corporation if the parent is a member of the unitary business and has nexus with Maine. If there is no parent company or the parent company is not a member of the unitary business or does not have nexus with Maine, the unitary business must choose a Maine taxpayer member to file the return. Once selected, the filing member must remain the same in subsequent years unless changes in that member's ownership or nexus occur. Unitary members who have nexus with Maine may file separate returns with their income tax based on the combined report of the unitary business. A copy of the combined report must be attached to each of the separate returns. The apportionment factor of the unitary business is then used to compute the Maine net income of the individual member filing a separate return.

In order to compute the tax for the unitary business, preferential rates are applied only to the first \$250,000 of Maine net income of the whole group and must be apportioned equally among the taxable corporations unless another election by the unitary business is chosen. The balance of the Maine net income of the entire group must be taxed at the highest marginal tax rate. A schedule showing the income assignment to each corporation and computation of the income tax must be submitted with each return. Any tax credits generated by a taxable corporation engaged in the unitary business must be applied against the Maine income tax liability of that corporation only, unless otherwise permitted by law.

DIFFERING YEAR-END DATES: Members of a unitary business with differing year-end dates must file using the filing member's taxable year to determine the Maine net income of the unitary business. If the precise amount of a unitary member's income can be readily determined from the books for the months involved in the filing member's taxable year, those actual amounts are to be used. In the absence of a precise determination, the income of a unitary member must be converted to conform to the taxable year of the filing member on the basis of the number of months falling within the applicable taxable year. For example, if the filing member operates on a calendar year and a unitary member includible in the combined report operates on a fiscal year ending on February 28th, it is necessary to assign 10/12 of that member's income from the current taxable year and 2/12 of the income from the preceding taxable year in order to arrive at a full twelve months' income to be included in the combined report (this method may be used only if the return can be timely filed after the member's taxable year ends). Alternatively, all of the income from the unitary member's taxable year ending during the taxable year of the filing member may be used. Whichever method for calculating Maine net income is used, that method must be used for all years that the unitary member must file. Once the combined taxable income of the unitary business is determined on the basis of the filing member's taxable year, the apportionment factor must be computed on the basis of the same taxable year.

For more information on unitary business and combined reporting, see MRS Rule 810.

GENERAL INSTRUCTIONS

1. DATE FOR FILING RETURN: Corporations reporting for the calendar year 2002 are required to file, with payment, on or before March 17, 2003. Fiscal year taxpayers are required to file, with payment, on or before the 15th day of the third month following the close of the taxable year.

2. EXTENSIONS FOR FILING: A State of Maine extension request form is not required. If you are unable to file your return by the original due date of the return, Maine allows an automatic seven-month extension of time to file. **CAUTION: AN EXTENSION TO FILE YOUR MAINE RETURN IS NOT AN EXTENSION FOR PAYMENT OF TAX.** If you owe money, you must pay at least 90% of that amount by the original due date for filing your return and the remaining 10% must be paid when the return is filed by the extended due date in order to avoid the failure-to-pay penalty. However, interest is charged on any tax paid after the original due date of your return.

Remit your estimated tax payment with the payment voucher (Form 1120EXT-ME, located in this book) by the original due date for filing your Maine return to: Maine Revenue Services, P.O. Box 9114, Augusta, ME 04332-9114.

3. PAYMENT OF CORPORATE INCOME TAX: All corporations subject to income taxes must make payments of estimated tax unless the liability for the current taxable year or for the prior tax year reduced by allowable credits is less than \$1,000. See instructions for Form 1120ES-ME for details.

4. INTEREST: Beginning January 1, 2003, interest at 7% per annum, compounded monthly, will be added to the balance of any tax due from the original due date to the date of payment and should be included with any payment.

5. PENALTIES:

a. Underpayment of estimated tax penalty. Beginning January 1, 2003, the penalty is 7% per annum, compounded monthly. The penalty rate for 2002 is 8%. The penalty will be assessed if the sum of quarterly estimated tax payments is not at least equal to the lesser of the previous year's Maine income tax liability or ninety percent (90%) of the tax liability for the current year. Exception: certain large corporations cannot use the previous year's liability in determining the required amount of estimated tax payments.

b. Late filing and late payment penalties. If a past due return is filed before the receipt, or within 30 days of the receipt, of a demand notice, the penalty for failure to file is the greater of \$25 or 10% of the amount of tax due. If the return is filed more than 30 days after the receipt of a demand notice, the failure-to-file penalty increases to 100% of the tax otherwise due.

For failure to pay a tax liability, the penalty is 1% of the tax liability for each month the payment is delinquent, up to a maximum of 25%.

c. Other penalties. The law also provides for penalties for substantial understatement of tax, negligence, fraud, and for payment of tax by check that is returned for insufficient funds.

6. ACCOUNTING PERIOD COVERED BY RETURN: Your Maine return covers the same accounting period as your federal corporate return. If the taxable years of the members of a unitary business group differ, see MRS Rule 810 § 05 and page 3 of this booklet, "Differing year-end dates."

7. ACCOUNTING METHODS: A taxpayer's accounting method for Maine income tax purposes must be the same as that used for federal income tax purposes.

8. ADDITIONAL FORMS TO ACCOMPANY STATE RETURN:

a. The Maine corporate return must be accompanied by a legible copy of the corporation's federal return, Form 1120, pages 1 through 4, for the same taxable period. If a member of a **federal consolidation**, the federal return, Consolidated Form 1120, pages 1 through 4, must be provided.

b. Corporations subject to Maine corporate income tax that are members of an affiliated group as defined by Maine law, and operating in a unitary business **must complete Form CR, along with an affiliation schedule.** Exempt organizations filing the Maine corporate return, Form 1120ME, must attach a legible copy of the corporation's federal return, Form 990T.

9. FEDERAL AUDIT CHANGES AND AMENDED RETURNS: Taxpayers must file Maine amended returns for any change or correction by the Internal Revenue Service in federal taxable income within 90 days after final determination of such change or correction. Attach a copy of the Internal Revenue Agent's report with all supporting schedules to your Maine amended return, Form 1120X-ME.

Taxpayers filing amended federal income tax returns must, within 90 days, file amended Maine income tax returns with copies of federal Form 1120X. When filing returns that reflect federal net operating losses, a copy of federal Form 1139 must be attached.

In addition, an amended Maine income tax return is required to correct errors on a previously filed return. The amended return must be filed within 90 days of the discovery.

10. MAINE SALES AND USE TAX INFORMATION: Taxable items bought from out-of-state sellers that do not collect Maine sales tax are subject to a use tax. The use tax equals 5% of the purchase price where no sales tax has been paid. Use tax is also due on mail orders where there was no sales tax collected. There is no use tax liability on purchases where sales tax has been **paid** to states with a sales tax rate equal to or greater than the Maine sales tax rate. Nor is there any use tax liability if the purchase would have been exempt if purchased in Maine. If you are registered for sales/use tax purposes and are receiving returns, report the purchases on the applicable "Taxable Purchases" line of that return. Call 207-624-9693 if you have questions about Maine Use Tax Law.

11. ELECTRONIC FUNDS TRANSFER: Corporate taxpayers may make payments electronically using the ACH Credit Method. This means that you can electronically transfer funds from your bank account to the State of Maine. Corporate taxpayers may also use Maine Revenue Services' telephone ACH electronic funds withdrawal (debit) payment system. Both of these ACH payment methods require applications to participate. Taxpayers with an annual corporate liability of \$400,000 or more are mandated by MRS Rule 102 to pay electronically. You will be separately notified if mandated.

To obtain an application, a copy of the rule, or to get more information, call 207-287-8276 or write: EFT Unit, Maine Revenue Services, 24 State House Station, Augusta, ME 04333-0024. The ACH applications and MRS Rule 102 can also be downloaded at www.maine.gov/revenue.

Penalty for failure to pay by electronic funds transfer. Any person required to pay by electronic funds transfer who fails to do so is liable for a penalty equal to the lesser of 5% of the tax due or \$5,000.

Penalty for insufficient funds. The penalty for insufficient funds also applies to electronic funds transfers. The penalty is \$20 or 1% of the payment amount, whichever is greater.

12. OVERPAYMENTS CREDITED TO FUTURE TAX YEARS: Effective January 1, 2001, Maine Revenue Services will offset tax overpayments designated to be carried forward in order to satisfy an existing debt with MRS or any other state agency.

SPECIFIC INSTRUCTIONS – 1120ME

Line A. FEDERAL CONSOLIDATED INCOME: If the federal filing was part of a federal consolidated return, enter the amount from federal Form 1120, line 30 here.

Line 1. FEDERAL TAXABLE INCOME: Enter federal taxable income from line 30 of federal Form 1120 or line 26 of federal Form 1120A, unless the corporation is an S corporation. For S corporations, the corporate level federal taxable income is entered. Corporations that are members of an affiliated unitary business group should refer to the “Combined Reporting Instructions” on page 3 and on pages 9-10. Real estate investment trusts (REITs) enter amount from federal Form 1120-REIT, line 22. A corporation that is an affiliate of a federal consolidated filing, but not a member of a unitary business group, must enter federal taxable income that is solely attributable to the corporation.

Line 2a. NONTAXABLE INTEREST: Enter interest on U.S. bonds, U.S. Treasury notes, or other obligations of the U.S. government which, by law, are exempt from state taxes, but taxable by the federal government. Interest from bonds issued by the State of Maine or Maine municipalities is exempt from Maine income tax even if taxed on the federal return. Taxpayers may subtract from federal taxable income interest income and capital gains from the sale of bonds issued by the Waste Management Agency to the extent included in federal taxable income.

Line 2b. FOREIGN DIVIDEND GROSS-UP: Enter the amount from federal Form 1120, Schedule C, line 15.

Line 2c. WORK OPPORTUNITY CREDIT: Enter on this line an amount equal to your federal Work Opportunity Credit from federal Form 5884, line 4.

Line 2d. INCOME NOT TAXABLE UNDER THE CONSTITUTION OF MAINE OR THE U.S.: Enter income this state is prohibited from taxing under the constitution or laws of the United States or the constitution of the State of Maine. The amount must be decreased by any expenses incurred in the production of that income to the extent that these expenses are deductible in determining federal taxable income. **Attach a worksheet that details any amount claimed on this line.**

Line 2e. DIVIDENDS FROM AFFILIATED CORPORATIONS: Enter 50% of all apportionable dividends from affiliated corporations that are not included by the taxpayer in a Maine combined report. Dividends must be included in federal taxable income, line 1.

Line 2f. NET OPERATING LOSS DEDUCTION CARRYOVER: If you have a net operating loss for tax years beginning in 1989 through 1992, or 2001, that was carried back for federal purposes, but added back to income under § 5200-A(1)(H) or § 5200-A(1)(M), you are allowed a deduction on this line equal to the amount of the income addition required for Maine income tax purposes. However, the deduction must be within the allowable NOL carryover period, cannot reduce Maine taxable income to less than zero and must not have been previously used as a modification.

Line 2g. INCOME FROM OWNERSHIP INTEREST IN FLOW-THROUGH ENTITY FINANCIAL INSTITUTIONS SUBJECT TO MAINE FRANCHISE TAX: Financial institutions are subject to Maine’s franchise tax, regardless of organizational structure. If federal taxable income includes income from ownership of a financial institution that is a flow-through entity (partnership, S corporation, entity disregarded as separate from its owner), enter the amount on this line. Attach federal Schedule K-1 reporting this amount.

Line 2h. STATE INCOME TAX REFUNDS: Enter the amount of state income tax refunds included in federal taxable income provided the amount has already been taxed by Maine. This modification may not reduce Maine net income to less than zero, and the amount refunded from this state or another state must not have been previously used as a modification. Any unused portion of the modification may be carried back two years and carried forward 20 years.

Line 2i. NORTHERN MAINE TRANSMISSION CORPORATION ADJUSTMENT: Beginning September 18, 1999, bonds, notes, other evidences of

indebtedness; interest and profits from bonds, notes, other evidences of indebtedness; and any other income or money of the Northern Maine Transmission Corporation are exempt from state income tax.

Line 4a. INCOME TAXES IMPOSED BY MAINE OR ANY OTHER STATE: Maine does not permit a deduction for income taxes imposed by Maine or any other state. Add back income taxes taken as a deduction on federal Form 1120 or 1120A.

Line 4b. UNRELATED EXPENSES: If the corporation listed on this return is part of a federal consolidated group, but filing separately for Maine and is not a member of a unitary business group, any expenses incurred by the corporation on behalf of subsidiaries or other members of a group that are not included on this return must be added back. **Attach supporting schedules.**

Line 4c. INTEREST FROM STATE AND MUNICIPAL BONDS OTHER THAN MAINE: Corporations must, for Maine income tax purposes, increase federal taxable income by income from state and municipal bonds that originate outside Maine.

Line 4d. NET OPERATING LOSS CARRYBACK ADJUSTMENT AND NET OPERATING LOSS RECOVERY ADJUSTMENT: Enter on this line:

(1) An amount equal to any net operating loss for this taxable year which has been or will be carried back to previous taxable years for federal income tax purposes pursuant to IRC §172, and;

(2) An amount equal to any net operating loss carryover deduction claimed in this taxable year which has previously been used to offset Maine modifications to federal taxable income in accordance with 36 M.R.S.A. § 5200-A(1). See example below.

The following example illustrates the NOL Carryback Adjustment and the NOL Recovery Adjustment:

On the original return, federal taxable income (FTI) for 2003 is \$30,000, Maine positive modifications are \$10,000 and Maine taxable income (MTI) is \$0. For 2004, FTI is \$25,000, Maine positive modifications are \$8,000, and MTI is \$18,000. The figures below represent application of the deduction modification in years 2003 and 2004, using line 2f on the Maine return, due to the NOL carryback denial in 2001.

Corresponding Line on Maine Return	2001	NOL Year 2002	Carryforward Years	
			2003	2004
Federal taxable income prior to NOL	55,000	– 60,000	35,000	25,000
	<u>– 55,000</u>	<u> </u>	<u>– 5,000</u>	<u> </u>
1. FTI after NOL	0	– 60,000	30,000	25,000
2f. Deduction Modification 5200-A (2)(H)				
			<u>– 40,000</u>	<u>– 15,000</u>
Addition Modifications:		55,000		
4d. 5200-A (1)(B)				
4d. 5200-A (1)(H)	55,000			
4x. Other			10,000	8,000
6. Maine Taxable Income	55,000	-5,000	0	18,000

Of the original \$60,000 loss in 2002, \$55,000 is carried back for federal purposes, but disallowed for Maine purposes. The remaining \$5,000 is carried forward at the federal level and is included in 2003 FTI. For Maine purposes, the amount equal to the federal carryback is allowed as a subtraction modification to the extent that it does not reduce MTI below zero, is within the allowed federal carryover period and has not previously been used as a subtraction modification. For additional information concerning the NOL recovery adjustment, see MRS Rule 807, available at www.maine.gov/revenue.

SPECIFIC INSTRUCTIONS – 1120ME, continued

Line 4e. LOSS, EXPENSES, OR DEDUCTIONS FROM OWNERSHIP INTEREST IN FINANCIAL INSTITUTIONS SUBJECT TO MAINE FRANCHISE TAX: All financial institutions are subject to Maine's franchise tax, regardless of the entity's organizational structure. If federal taxable income includes a loss, expense, or deduction from ownership of a financial institution that is a passthrough entity (partnership, LLC, S corporation, entity disregarded as separate from its owner), enter the amount on this line. Attach federal Schedule K-1 to verify this amount.

Line 4f. HIGH-TECHNOLOGY CREDIT ADD-BACK: Maine net income must be increased by the amount of investment credit base used for the high-technology credit also claimed as a business expense for federal income tax purposes.

Line 4g. 30% BONUS DEPRECIATION ADD-BACK: For tax years beginning in 2002, federal taxable income must be increased by the net effect of any 30% bonus depreciation reflected in federal taxable income. The amount of this modification is determined by first recalculating the depreciation deduction on federal Form 4562 exclusive of the 30% bonus depreciation amount. Enter on line 4g the difference between this recalculated depreciation deduction amount and the original depreciation deduction claimed for federal income tax purposes.

Line 6. MAINE NET INCOME: A corporation that is not part of an affiliated-unitary business group and has income solely from business activity within Maine must enter the amount from line 5 on line 6. A corporation having income from within and outside the state, must apportion income on Schedule A and enter on this line the amount shown on line 17 of Schedule A. All corporations that are members of a unitary business group must also complete Form CR. See combined reporting instructions on pages 3, 9, and 10 of this booklet.

Line 7a. MAINE CORPORATE INCOME TAX: For tax years beginning in 2002, the Maine corporate tax rates are as follows:

If Maine net income is:

Greater Than	But not over	The tax is:
\$ 0	\$ 25,000	3.5% of Maine net income
25,000	75,000	\$ 875 plus 7.93% of the excess over \$ 25,000
75,000	250,000	4,840 plus 8.33% of the excess over \$ 75,000
250,000	or more	19,418 plus 8.93% of the excess over \$250,000

In the case of an affiliated group of corporations engaged in a unitary business, the respective preferential rates are applied only to the first \$250,000 of Maine net income of the entire group and are divided equally among the taxable corporations unless those taxable corporations jointly elect a different assignment. The balance of Maine net income of the entire group is taxed at 8.93%. Attach a schedule to the return, showing income assignment to each corporation.

Line 7b. MINIMUM TAX: A minimum tax may be imposed, for each taxable year, upon every corporate taxpayer required to file a Maine corporate income tax return. Complete Schedule B to compute the amount to be entered on this line.

Lines 8a and b. CREDITS: Enter estimated tax payments and extension payments made for the tax year. If claiming real estate withholding payments on line 8a, you must attach Form REW-1. Include on this line any overpayment carried over from previous years and applied to this year.

Line 8c. OTHER CREDITS: Enter the amount from Schedule C, line 29c. The amount on this line cannot exceed the tax liability on line 7c of Form 1120ME.

Line 9b. PENALTY FOR UNDERPAYMENT OF ESTIMATED TAX: If the estimated tax was underpaid, complete and attach Form 2220ME to the corporate return. A copy of Form 2220ME is available at www.maine.gov/rev-enue.

Line 11a. AMOUNT OF LINE 10 YOU WISH CREDITED: Use this line only if you want to have all or part of the overpayment on line 10 applied as a payment to your next year's estimated Maine corporate income tax.

Line 11b. AMOUNT TO BE REFUNDED: Enter here the difference between lines 10 and 11a. Refunds of \$1.00 or more will be mailed to you.

IMPORTANT: IF ALL REQUIRED LINES AND SCHEDULES (INCLUDING FORM CR) ARE NOT COMPLETED, THE RETURN IS INCOMPLETE AND WILL NOT BE CONSIDERED A FILED RETURN. ALSO, PAGES 1 - 4 OF THE FEDERAL RETURN MUST BE ATTACHED TO YOUR MAINE CORPORATE RETURN.

SCHEDULE A INSTRUCTIONS

GENERAL INSTRUCTIONS

Schedule A is for corporations engaged in interstate business. Maine employs a three-factor formula to determine the percentage of corporate income that is apportioned to Maine. This percentage is derived from a fraction, the numerator of which is the property factor plus the payroll factor plus twice the sales factor, and the denominator of which is four (36 M.R.S.A. §§ 5210-5211 and MRS Rule 801). If the apportionment provisions do not fairly represent the extent of the taxpayer's business activity in Maine, the taxpayer may petition for, or the State Tax Assessor may require, in respect to all or any part of the taxpayer's business activity:

- Separate accounting;
- The exclusion of any one or more of the factors;
- The inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in Maine; or
- The employment of any other method to effectuate an equitable apportionment of the taxpayer's income.

"Tax period," referred to in the instructions for lines 12, 13, and 14, means the period represented by adjusted federal taxable income on line 5 of Form 1120ME.

"Sales" means all gross receipts including trade sales, dividends, interest, rents, and royalties. **See MRS Rule 801.08(B).**

Corporations that are members of a unitary business group, see additional instructions on pages 3, 9, and 10.

Corporations that have an ownership interest in a passthrough entity must include aggregate distributions from that entity in the apportionment formula.

If one factor is excludable from the apportionment formula, the weighting of the two remaining factors must be changed. A factor is excludable only if both the numerator and denominator are zero, but is not excludable merely because the numerator is zero. When excluding the sales factor, change the weight of the payroll and property factors to 50% (0.5) each. When excluding either the payroll or property factor, change the weight of the sales factor to 66.67% (0.6667) and the weight of the remaining factor to 33.33% (0.3333). If two factors are excludable from the apportionment formula, change the weight of the remaining factor to 100%. If you are excluding any factors, attach a schedule detailing the factors used and the apportionment computation. If the total of column C, lines 12, 13, and 14, does not equal the amount you enter on line 15, your tax liability will not be computed accurately.

See MRS Rule 801 generally regarding apportionment of income.

INSTRUCTIONS FOR SCHEDULE A, continued

SPECIFIC INSTRUCTIONS

MUTUAL FUND SERVICE PROVIDERS may elect to apportion income to Maine using a sales-only formula. Check the box on Schedule A if you qualify and are making this election. The choice is irrevocable for five years. Taxpayers electing the special apportionment may not be included in Form CR.

Line 12. SALES FACTOR: The sales factor is a fraction, the numerator of which is the total sales of the taxpayer in Maine during the tax period, and the denominator of which is the total sales of the taxpayer everywhere during the tax period.

Sales of tangible personal property are attributed to Maine if (1) the property is delivered or shipped to a purchaser, other than the United States Government, in Maine, regardless of the F.O.B. point or other conditions of the sale, or (2) the property is shipped from an office, store, warehouse, factory or other place of storage in Maine and the purchaser is the United States Government or the taxpayer is not taxed in the state of the purchaser.

Sales, other than sales of tangible personal property, are attributed to Maine if (1) the income-producing activity is performed in this state, or (2) the income-producing activity is performed both in and outside Maine and a greater proportion of the income-producing activity (based on costs of performance) is performed in this state than in any other state.

Line 13. PAYROLL FACTOR: The payroll factor is a fraction, the numerator of which is total compensation paid in Maine during the tax period by the taxpayer, and the denominator of which is total compensation paid everywhere during the tax period. "Compensation" means wages, salaries, commissions and any other form of remuneration to employees for personal services, including deferred compensation. Compensation is paid in Maine if (1) the individual's service is performed entirely within this state; (2) the individual's service is performed both within and outside Maine, but the service performed outside the state is incidental to the individual's service within Maine; or (3)

some of the service is performed in this state, the base of operations (or, if there is no base of operations, the place from where the service is directed or controlled) is not in any state in which some part of the service is performed, and the individual's residence is in Maine.

Payroll for leased and temporary employees. The payroll factor for the apportionment calculation must now include 85% of amounts paid to an employee-leasing company for leased employees and 100% of amounts paid for temporary employees. Employee-leasing companies and temporary services companies will exclude from the payroll factor compensation paid to leased or temporary employees who are providing personal services to client companies. However, amounts received from clients for leased or temporary employees must still be included in the sales factor calculation of the leasing or temporary services company.

"Leased employee" means an individual who performs services for a client company pursuant to a contract between the client company and an employee-leasing company.

"Temporary services" means employee services provided to client companies for a contractual period of less than 12 months.

Line 14. PROPERTY FACTOR: The property factor is a fraction, the numerator of which is the average value of the taxpayer's real and tangible personal property (including inventory) owned or rented and used in Maine during the tax period and the denominator of which is the average value of all the taxpayer's real and tangible personal property (including inventory) owned or rented and used during the tax period. Property owned by the taxpayer is valued at original cost.

Property rented by the taxpayer is valued at eight times the net annual rental rate. The average value of the property is determined by averaging the values at the beginning and end of the tax period, but the State Tax Assessor may require the averaging of monthly values during the tax period if reasonably required to reflect properly the average value of the taxpayer's property.

SCHEDULE B INSTRUCTIONS

See Schedule B for specific instructions for each line. Attach federal Form 4626. If the members of the Maine corporate return differ from the federal corporate return filing, complete and attach a pro forma federal Form 4626 for the entity or entities included in the Maine return. If entering an amount on line 21, attach a pro forma Form 4626 that includes Maine income modifications.

Line 21. The effect of the federal minimum tax on all applicable modifications to income pursuant to 36 M.R.S.A. § 5200-A must be added and/or subtracted here. Enter the net of the following: The portion of the federal tentative minimum tax attributable to income that state or federal law prohibits from taxation and the amount attributable to income that is subject to Maine income tax but not federal income tax. The amount you enter on line 21 may be either a positive or negative number. See instructions on pages 5-6 for lines 2 and 4 for details on income excluded from the Maine income tax (all negative income modifications) and income taxable by Maine but not by

federal (all positive income modifications). To compute the amount to enter on line 21, recalculate the federal tentative minimum tax prior to the federal alternative minimum tax foreign tax credit by increasing or decreasing (as the case may be) the federal alternative minimum taxable income by the net amount of allowable Maine income modifications. If the recalculated federal tentative minimum tax prior to the alternative minimum tax foreign tax credit is less than the federal tentative minimum tax (prior to the alternative minimum tax foreign tax credit) computed on the original federal minimum tax form, subtract the recalculated amount from the originally calculated amount. Enter the result as a negative number on line 21 and subtract the amount from line 19 when calculating line 22. However, if the recalculated amount is more than the originally calculated federal tentative minimum tax (prior to the alternative minimum tax foreign tax credit), subtract the originally calculated amount from the recalculated amount and enter the result as a positive number on line 21. Add the amount to line 19 when calculating line 22.

SCHEDULE C INSTRUCTIONS

29a. Maine Seed Capital Tax Credit*: Enter on this line the tax credit as authorized by the Finance Authority of Maine. A copy of the tax credit certificate must be attached to the return. The amount of credit is subject to limitations as outlined in 36 M.R.S.A. § 5216-B.

29b. Jobs and Investment Tax Credit*: A tax credit for qualifying jobs and investment is entered on this line. Eligibility for the credit requires the addition of \$5 million of IRC § 38 property based on the Internal Revenue Code of 1954, as of December 31, 1985, § 38(b)(1), and 100 new jobs attributable to that investment in the 24-month period following the date the property was placed in service. For further details see 36 M.R.S.A. § 5215. **Jobs created between August 1, 1998 and October 1, 2001 must be covered by qualified retirement and health insurance plans, and wages must be greater than the average per capita income in the labor market area in which the employee is employed.**

29c. Employer-Assisted Day Care Tax Credit* and Quality Child Care Investment Credit*: Line 29c is used for both credits. Combine the credits for purposes of the gross credit amount and credit amount claimed.

Employer-Assisted Day Care Tax Credit*: A taxpayer constituting an employing unit is allowed a credit for providing day care for or paying day care expenses of employees, subject to the limitations of 36 M.R.S.A. § 5217. The tax credit is limited to the lowest of \$5,000, 20% of the cost incurred, or \$100 for each child of an employee of the taxpayer enrolled on a full-time basis. Carryover provisions apply. This credit is doubled if the day care provided constitutes quality child care. The Maine Department of Human Services ("DHS"), Office of Head Start and Child Care, certifies quality child care facilities. Attach a copy of the certificate when claiming the double credit for quality child care. For more information on quality child care services and the certification process, call DHS, Office of Head Start and Child Care, at 207-287-5099.

Quality Child Care Investment Credit*: Corporate taxpayers making certified investment in quality child care services qualify for a credit equal to 30% of up to \$30,000 of eligible expenditures. Carryover provisions apply. The Maine Department of Human Services, Office of Head Start and Child Care, must certify eligible investments. Attach a copy of the certificate when claiming this credit. For more information on quality child care services and the certification process, call DHS, Office of Head Start and Child Care, at 207-287-5099.

29d. Employer-Provided Long-Term Care Benefits Credit*: For tax years beginning on or after January 1, 2002, employers are eligible for the employer-provided long-term care credit if the policy on which premiums are paid is certified by the Maine Bureau of Insurance or the policy meets the federal definition of a qualified long-term care insurance contract under the Internal Revenue Code. Previously, only policies meeting the federal definition of a qualified long-term insurance contract qualified for the tax benefits. If the qualifying policy is one certified by the Bureau of Insurance, enter the policy number at line 29d. 36 M.R.S.A. § 5217-C.

29e. Machinery and Equipment Investment Tax Credit: Enter the amount of the credit carried forward to this tax year. Attach a schedule verifying the amount carried forward.

29f. Solid Waste Reduction Investment Tax Credit: Enter the amount of the credit carried forward to this tax year. Attach a schedule verifying the amount carried forward to this tax year.

29g. Research Expense Tax Credit*: The credit is 5% of qualified research expenses incurred during the taxable year that exceed the average qualified research expense for the previous 3 tax years, plus 7.5% of the basic research payments determined pursuant to IRC § 41(e)(1)(A). Only expenditures for research conducted in Maine qualify for the credit. The term "qualified research" is defined in IRC § 41(d). The credit is limited to the first \$25,000 of tax liability before credits plus 75% of the tax liability that exceeds \$25,000. Carryover provisions apply. 36 M.R.S.A. § 5219-K.

29h. Super Research and Development Credit*: Businesses whose Maine research expenses increase by more than 50% over the average research expenses incurred in the three years immediately preceding June 12, 1997 qualify for this credit. The credit is equal to the excess over 150%

of the 3-year average. The credit is limited to 50% of the net income tax due after other credits and may not reduce the tax liability below the liability of the previous year after the allowance of all other credits. Carryover provisions apply. 36 M.R.S.A. § 5219-L.

29i. High-Technology Investment Tax Credit*: Businesses engaged primarily in high-tech activities are eligible for this credit. The credit is equal to the adjusted basis of eligible equipment on the date that equipment is placed in service in Maine, net of any lease payments received during the year. Lessors may claim the credit only if the lessee waives its entitlement to the credit. The credit may not reduce current year's tax liability below the liability of the previous year after the allowance of all other credits. The credit is limited to \$100,000 per year (\$200,000 in certain cases) and may not reduce the tax liability below zero. Carryover provisions apply. Maine net income must be increased by the amount of the investment credit base also claimed as a business expense for federal income tax purposes. Also, the 12-year reimbursement period under the Business Equipment Tax Reimbursement Program must be reduced one year for every year the qualified equipment was included in the Investment Tax Credit base. 36 M.R.S.A. § 5219-M.

29j. Maine Minimum Tax Credit: Complete Schedule D on page 4 of Form 1120ME to calculate your credit. 36 M.R.S.A. § 5203-A(5).

29k. Credit for Dependent Health Benefits Paid*: Employers that offer a qualified health benefit plan and that employ fewer than five employees may qualify for this credit. The credit is equal to the lesser of 20% of the dependent health benefits paid by the employer or \$125 per employee with dependent health benefits coverage. A taxpayer that employs five or more employees after qualifying for the credit may continue to qualify for the credit for another two years. Otherwise, a taxpayer may claim a credit only for those periods during which the employer: 1) offers a qualified health benefit plan that is made available to all of its low-income employees; 2) pays at least 80% of the health insurance costs for each low-income employee under the plan, and; 3) pays at least 60% of the cost of dependent health insurance benefits for children under 19 who are dependents of a low-income employee under the plan. The credit is limited to 50% of the income tax due. Any unused credit may be carried over for two years. 36 M.R.S.A. § 5219-O.

29l. Clean Fuel Credit*: The credit is based on the expenditures paid or incurred for construction, installation of, or improvements to any filling station or charging station in Maine for the purpose of providing clean fuels to the general public for use in motor vehicles. Clean fuel is defined as any product or energy source, other than conventional gasoline, diesel or reformulated gasoline, that lowers emissions of certain pollutants. Clean fuel includes, but is not limited to, compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, hythane, dynamic flywheels, solar energy, alcohol fuels, and electricity. **The credit applies to expenditures incurred on or after January 1, 1999 and automatically expires January 1, 2006.** 36 M.R.S.A. § 5219-P.

29m. Historic Rehabilitation Credit*: A taxpayer is allowed a credit equal to the amount of the federal credit, including carryovers, for rehabilitation of certified historic structures located in Maine. The credit is nonrefundable and is limited to \$100,000 annually per taxpayer. The credit is subject to the same recapture provisions as under the Internal Revenue Code. The credit applies to tax years beginning on or after January 1, 2000. 36 M.R.S.A. § 5219-R.

29n. Family Development Account Credit*: Contributors to family development matching fund accounts are eligible for a credit. The credit per tax return is equal to the lesser of \$25,000 or 50% of the amount contributed. The credit is limited to the tax liability on the return and must be taken after the allowance of all other credits. The aggregate allowable credit amount in a state fiscal year is limited to \$200,000. The Finance Authority of Maine is required to certify the allowable credit for each contributor. Call 207-623-3263 for further information. The credit applies to tax years beginning on or after January 1, 2000. 36 M.R.S.A. § 5216-C.

(NOTE: The total of Schedule C credits cannot exceed the tax liability on line 7c of Form 1120ME.)

*** Complete and attach worksheets showing your calculations for the credits claimed. Credit worksheets are available at www.maine.gov/revenue.**

COMBINED REPORT (FORM CR) INSTRUCTIONS

The combined reporting form, when applicable, must be filed with Form 1120ME or Form 1120X-ME. This report **must** be accompanied by an affiliation schedule (federal Form 851 for consolidated filers is acceptable) listing name, federal ID number and corporate activity of all members of the affiliated group, both unitary and nonunitary members.

A. PURPOSE OF FORM:

NOTE: Only unitary business group members are to be included on this form. Affiliated non-unitary members are not to be included on Form CR.

Form CR is used to calculate the “taxable income under the laws of the United States” (36 M.R.S.A. § 5102(8)) of a unitary business. Taxable income under the laws of the United States of a unitary business is: (a) separate federal taxable income as defined under federal consolidated regulations for each member of a unitary business that is a member of a single federal consolidated filing; plus (b) separate federal taxable income as defined under federal consolidated regulations for members of a unitary business that are members of other federal consolidated filings; plus (c) federal taxable income from the federal returns of the unitary members that are not members of a federal consolidated group; plus (d) adjustments for certain intercompany transactions between members of the unitary business.

B. COMBINED REPORTING:

Corporations with taxable income under the laws of the United States that are members of an affiliated group engaged in a unitary business must file a combined report. Corporations that are members of a unitary business but are not required to file a federal return must be excluded from the combined report. This includes those corporations not required, but electing, to file a federal tax return.

“Affiliated group” means a group of two or more corporations of which more than 50% of the voting stock of each member corporation is directly or indirectly owned by a common owner or owners, either corporate or non-corporate, or by one or more of the member corporations. 36 M.R.S.A. § 5102(1-B). A “unitary business” is a business activity that is characterized by unity of ownership, functional integration, centralization of management, and economies of scale. 36 M.R.S.A. § 5102(10-A). See page 3 for more information.

All corporations, including any foreign sales corporation (“FSC”), required to file federal returns that are part of a unitary business are required to be included in the combined report of any taxable corporation with Maine nexus, even if the affiliated corporation has no nexus with Maine.

See generally MRS Rule 810 for more information.

C. SPECIFIC INSTRUCTIONS:

COLUMN INSTRUCTIONS

Nexus with Maine Column. Place a check mark in this column for those corporations listed in column 1 that have nexus with Maine (see explanation of nexus on page 2).

Column 1. Enter the name and federal identification number of each member of the unitary business. For an explanation of what constitutes a unitary business, see instructions on page 3. Indicate whether the corporation is an FSC, REIT, or 936 corporation.

Column 2. Enter the separate federal taxable income under U. S. Treasury Regulation § 1.1502 of each member listed in column 1 that was part of a federal consolidated return (member’s share of Form 1120, line 28). This information can be obtained from the supporting statement filed with Form 1120 for consolidated returns. **Attach a copy of the supporting statement from the consolidated return. Each corporation on this report should have an amount entered in either column 2 or column 3, but not both.**

Column 3. Enter the federal taxable income of each corporation listed in column 1 that filed a separate federal return (Form 1120, line 28 or equivalent income from other federally filed return). Entries in column 3 relate to member corporations of the unitary business that were not included in a federal consolidated return.

Each corporation on this report should have an amount entered in either column 2 or column 3, but not both.

Column 4. Enter any adjustments for eliminations, deferrals, and other modifications allowed under federal law and regulations not yet taken in column 2. Include any intercompany transactions between corporations listed on this report if those transactions resulted in gains or losses. For transactions between unitary business members not part of the same consolidated filing, enter adjustments allowed under MRS Rule 810.3(D). **Attach a worksheet that details adjustments claimed in column 4.**

Column 5. Combine columns 2, 3, and 4. This is the adjusted separate income of each member of the unitary business group.

FORM CR INSTRUCTIONS, continued

COLUMN INSTRUCTIONS CONTINUED

- Column 6.** A. State modification subtractions. Enter the share of state subtraction modifications applicable to the unitary member on the corresponding line. If a single return is filed for the entire group, the total for all unitary members must agree with Form 1120ME, line 2j.
- B. State modification additions. Enter the share of state addition modifications applicable to the unitary member on the corresponding line. If a single return is filed for the entire group, the total for all unitary members must agree with Form 1120 ME, line 4g. Attach a supporting schedule.
- Columns 7-9.** Enter each corporation's share of sales, payroll, and property of the unitary business. The totals should be carried over from line 17 to Form 1120ME, Schedule A. If a single return is filed for the entire group, the amounts listed on the total lines of columns 7, 8, and 9 must agree with those entered on lines 12, 13, and 14, Columns (A) and (B) of Schedule A, Form 1120ME.

LINE INSTRUCTIONS

- Line 16.** To the extent not already eliminated, remove all intercompany transactions. These eliminations are for page 2, columns 6-9 only. Attach a worksheet that details any adjustment claimed on this line.
- Line 17.** Enter the total for each of Columns 2 through 9.
- Line 18.** Enter allowable special deductions for the unitary business (from federal Form 1120, line 29b). These deductions must be aggregated and adjusted, if necessary, in a manner consistent with federal consolidated filing requirements.
- Line 19.** Enter the allowable NOL deductions for the unitary business. *See* MRS Rule 810.09 (allocation and uses of net operating losses).
- Line 20.** Enter the total from column 5 minus the deductions on lines 18 and 19. Enter on this line and on Form 1120ME, page 1, line 1. This is the taxable income under the laws of the United States of the unitary business.

Because Maine Revenue Services uses optical scanners to process Forms 1120ME and 1120X-ME, these forms cannot be altered in any way. Do not change line numbers or descriptions as these changes will not be detected when scanned.

Record-Keeping requirements

Keep a copy of your Maine income tax return, including worksheets, and supporting documents for the same period required for keeping your federal income tax records. This is generally 3 years from the date the return was filed. You should keep some records longer. For example, keep property records as long as they are needed to calculate the basis of the original or replacement property. *See* 36 M.R.S.A. § 135.

INSTRUCTIONS FOR FORM 1120ES-ME

Estimated Tax Payment Voucher

1. WHO MUST PAY ESTIMATED TAX?

Every corporation subject to taxation under 36 M.R.S.A., Part 8 (Income Taxes) must pay estimated tax. If the income tax liability for the taxable year or for the prior tax year reduced by any allowable credits is less than \$1,000, the requirement is waived. See 36 M.R.S.A. § 5228(2).

2. AMOUNT OF ESTIMATED TAX TO BE PAID.

The estimated tax must be no less than the smaller of the following:

- a. An amount equal to the preceding year's tax liability, if that preceding year was a taxable year of 12 months; or
- b. An amount equal to 90% of the tax liability for the current taxable year. However, taxpayers cannot use the machinery and equipment investment tax credit in the determination of the estimated corporate income tax liability.

Exception: Large corporations as defined in IRC § 6655(g)(2)(A), are required to pay estimated taxes in accordance with paragraph b, except as provided in 36 M.R.S.A. § 5228(5)(C).

3. DUE DATES FOR ESTIMATED TAX INSTALLMENTS.

Installment payments are due on the 15th day of the 4th, 6th, 9th and 12th months following the beginning of the corporation's fiscal year. If the due date falls on a Saturday, Sunday, or legal holiday, substitute the next succeeding day which is not a Saturday, Sunday, or legal holiday.

4. AMOUNT OF INSTALLMENTS.

The amount of estimated tax due for the taxable year must be paid in four equal installments unless:

- a. The taxpayer establishes by adequate record the actual distribution of tax liability and allowable credits during the tax year; or
- b. The taxpayer is a large corporation as defined by IRC § 6655(g)(2)(A). Such large corporations may elect to determine the first required installment for any taxable year based on the preceding year's state income tax liability, if that preceding year was a taxable year of 12 months. However, if the corpo-

ration so elects, the second required installment for the taxable year must equal 90% of the corporation's income tax liability for the first half of the current year, less the amount of the first installment for the taxable year as determined under this provision.

5. UNDERPAYMENT PENALTY.

A penalty equal to the interest rate on overdue taxes accrues automatically on underpayments of the required installment amount for the period of underpayment. The period of underpayment is the period of time from the date the installment is due until the underpayment is satisfied or until the tax return to which the estimate installment applies is due, whichever occurs earlier.

6. SHORT TAXABLE YEAR.

For a corporation having a taxable year of less than 12 months, the estimated tax must be paid in full by the 15th day of the last month of the taxable year. If you are filing a tax return for a short taxable year, identify your next filing period in the space provided on the voucher.



MAINE REVENUE SERVICES

MAINE CORPORATE INCOME TAX

ESTIMATED TAX WORKSHEET

For Form 1120ES-ME

1. **MAINE NET INCOME** (check one) ☐ For immediate prior year ☐ Current year estimated 1. _____

2. **ESTIMATED MAINE CORPORATE INCOME TAX** 2. _____

For tax years beginning on or after January 1, 2002, the Maine corporate tax rate is as follows:

If Maine net income is:

The tax is:

Greater than

But not over

\$ 0

\$ 25,000

3.5% of Maine net income

\$ 25,000

\$ 75,000

\$ 875 plus 7.93% of excess over \$ 25,000

\$ 75,000

\$250,000

\$ 4,840 plus 8.33% of excess over \$ 75,000

\$250,000 or more

\$19,418 plus 8.93% of excess over \$250,000

3. **OVERPAYMENT** from prior year elected for credit to estimated tax: 3. _____

4. **BALANCE** of estimated Maine corporate income tax (line 2 minus line 3): 4. _____

5. COMPUTATION and RECORD OF PAYMENTS

Date Paid	Total Estimate Original or Amended	Amount of Installment Payable	Prior Year Overpayment Applied to Installment	Balance Payable by Check	Total Payments and Refund Applied
1. _____	\$ _____	April 16 \$ _____	\$ _____	\$ _____	\$ _____
2. _____	\$ _____	June 17 \$ _____	\$ _____	\$ _____	\$ _____
3. _____	\$ _____	Sept 16 \$ _____	\$ _____	\$ _____	\$ _____
4. _____	\$ _____	Dec 16 \$ _____	\$ _____	\$ _____	\$ _____

Fiscal year corporations: use dates corresponding with the 15th day of the 4th, 6th, 9th and 12th months of the fiscal year.

NOTE: if your estimated tax should change during the year, you may use the amended computation worksheet below to determine the amended amounts to be entered on declaration.

1. **AMENDED ESTIMATED CORPORATE INCOME TAX** 1. _____

2. LESS:

a. Amount of **OVERPAYMENT** from prior year credited to
this year's estimated tax and applied to date 2a. _____

b. **PAYMENTS** made for current year 2b. _____

c. **TOTAL:** Line 2a plus line 2b 2c. _____

3. **UNPAID BALANCE:** Line 1 minus line 2c 3. _____

4. **AMOUNT TO BE PAID:** Line 3 divided by number of remaining installments 4. _____

(KEEP FOR YOUR RECORDS)
SEE REVERSE SIDE FOR INSTRUCTIONS

FORM 1120W-ME

1120X-ME – GENERAL INSTRUCTIONS

Purpose of form: Maine amended Form 1120X-ME must be filed if: 1) an amended federal return has been filed that affects the taxpayer's liability; 2) the Internal Revenue Service has made a change or correction that affects the taxpayer's liability; or 3) there are other changes or corrections that affect the taxpayer's liability.

How to file: Use Form 1120X-ME to correct Maine Form 1120ME or Form 1120A-ME for **years beginning on or after January 1, 1991**. For years prior to 1991, use Form 1120ME for the year(s) you are amending and print or type "amended" in the upper left corner of the form. To obtain a form for the appropriate pre-1991 year being amended, call 207-624-7894.

Attach copies of federal Form 1120X or the Internal Revenue Agent report to support changes shown on Maine Form 1120X-ME. In the event of a net operating loss, attach a copy of federal Form 1139 for each year that you are amending. For all amended returns, Schedules A through D must be completed, even if the amounts have not changed from the original return.

HOW TO REPORT A NET OPERATING LOSS ON AMENDED MAINE CORPORATE RETURNS

Federal net operating losses, including carrybacks and carryforwards, are reflected in the federal taxable income reported on the Maine corporate income tax return, line 1. If the Maine amended return being filed is due to federal NOL carrybacks or carryforwards, you must attach a copy of federal Form 1139 or Form 1120X and a schedule that reflects, from year to year, the use of the federal NOL carryback or carryforward and related income modifications described below. Corporations included in a federal consolidated return filing a separate Maine return that carry back a loss for Maine purposes that differs from the federal NOL carryback must complete and attach to the Maine Form 1120X-ME a pro forma federal Form 1139 (or similar schedule containing all of the information required by federal Form 1139) to support the amount of NOL deduction being claimed for Maine purposes. Clearly mark the form "Maine pro forma."

The following modifications are reported on the Maine corporate income tax return, line 4d: 1) the amount of any NOL for the current taxable year which, for federal income tax purposes, has been or will be carried back to previous taxable years in accordance with IRC § 172; 2) the amount of any NOL carryover deduction claimed for federal income tax purposes in accordance with IRC § 172 which has previously been used to offset Maine modifications to federal taxable income under 36 M.R.S.A. § 5200-A(1).

The following modifications are also reported on the Maine corporate income tax return, line 4d: 1) for NOLs arising in tax years 1989 – 1992 and 2002 that were carried back for federal income tax purposes, the federal taxable income in the year or years preceding the year of the loss must, for Maine income tax purposes, be increased by the amount of the federal NOL carryback; 2) for NOLs arising in tax years beginning or ending in 2001 that were carried back more than two years for federal income tax purposes, the federal taxable income in the year or years preceding the year of the loss by more than two years must, for Maine income tax purposes, be increased by the amount of the federal NOL carryback. The modification relating to NOLs arising in years beginning or ending in 2001 does not apply to certain small businesses and farmers.

For NOLs arising in tax years 1989 – 1992, the federal taxable income of the taxpayer in the *15-year period* following the year of the loss may, for Maine income tax purposes, be decreased in an amount which in the aggregate does not exceed the amount of the add-back modification explained in the previous paragraph relating to NOLs arising in tax years 1989 – 1992. Likewise, for NOLs arising in tax years beginning on or after January 1, 2002, the federal taxable income of the taxpayer in the *20-year period* following the year of the loss may, for Maine income tax purposes, be decreased in an amount which in the aggregate does not exceed the amount of the add-back modification explained in the previous paragraph relating to NOLs arising in tax years beginning on or after January 1, 2002. For NOLs arising in tax years beginning or

ending in 2001 that were carried back more than two years for federal income tax purposes, federal taxable income in the two years preceding the year of the loss and within the allowable carryover period for NOLs may, for Maine income tax purposes, be decreased in an amount which in the aggregate does not exceed the amount of the add-back modification explained in the previous paragraph relating to NOLs arising in tax years beginning or ending in 2001. However, Maine taxable income may not be reduced to less than zero. The modifications described in this paragraph are reported on line 2f of the Maine corporate income tax return.

The above modifications also apply to the Maine Alternative Minimum tax. Attach a schedule showing the alternative minimum tax loss and use of modifications.

Unitary groups. For a unitary group filing a combined Maine return, the federal taxable income to be reported on the Maine corporate return, line 1 is the federal taxable income under the laws of the United States for the unitary group (see MRS Rule 810). This is the amount shown on Form CR, line 20 as amended (all unitary business groups must complete Form CR, formerly Schedule CB). The determination of the federal taxable income of the unitary group in accordance with MRS Rule 810 may result in an NOL for Maine that differs from the federal NOL. This is generally the result of the unitary group being different than the federal consolidated group. Regardless of the federal NOL amount, the NOL amount for the Maine unitary group may be carried back (for tax years beginning prior to 2002) or forward consistent with the Internal Revenue Code and related regulations, subject to the modifications of 36 M.R.S.A. § 5200-A(1)(B), (C) & (H) and subject to the requirements of MRS Rule 810. If the loss being carried back for Maine purposes is different than the loss being carried back for federal purposes, complete and attach to the Maine Form 1120X-ME a pro forma federal Form 1139 (or similar schedule containing all of the information required by federal Form 1139) to support the NOL deductions being claimed for Maine purposes. Clearly mark the form "Maine pro forma." If the composition of the unitary group changes, see MRS Rule 810 for guidance on the allocation and use of NOLs.

An incomplete Form 1120X-ME cannot be processed. Attaching schedules or spreadsheets in lieu of completing this form is not acceptable.

Maine Revenue Services uses optical scanners to process Forms 1120ME and 1120X-ME; these forms cannot be altered in any way. Do not change line numbers or descriptions as these changes will not be detected when scanned. All dollar amounts other than zero must be written in the appropriate column even if the amount has not changed from a previous return or filing period. Any box on Form 1120X-ME column C that is left blank will be read as a zero.

When to file: Amended Maine income tax returns must be filed within 90 days of the final determination of the change or correction of the filing of the federal amended return or Internal Revenue Agent report. File form 1120X-ME only after you have filed an original return.

Generally, to receive a refund of taxes paid, you must file Form 1120X-ME within three years after the date the original return was filed, or within three years after the date the tax was paid, whichever is later. This time limit does not apply when the Internal Revenue Service makes an adjustment that affects the taxpayer's liability.

Combined Reports: Refer to the instructions for Form CR and Combined Reporting in the corporate income tax booklet. You must attach a copy of Form CR to Form 1120X-ME if you are a member of a unitary business group.

SPECIFIC INSTRUCTIONS

Reason for change: Check the appropriate box to identify the reason for filing this form: 1) if an Internal Revenue Service audit change, attach a copy of the federal audit; 2) if a net operating loss, attach a copy of federal Form 1139; 3) if an amended federal Form 1120X, attach a copy of the federal amended return; 4) if an accounting change, attach approval of acceptance from the Internal Revenue Service; 5) if other, attach a written explanation of change.

Column A: Enter the amounts from your return as originally filed or previously amended. If your return was adjusted or audited by the State of Maine, enter the amounts as last adjusted.

Column B: Enter the net increase or net decrease for each line that is changed. Use a minus sign to the left of the number to indicate a decrease.

Column C: This column must be filled out completely even if the amount in column A is not being adjusted. Combine the amounts in column A and column B and enter the result in column C.

SCHEDULES A - D:

Check the Amended box if the schedule is being changed as a result of this amended return and complete each schedule with the amended figures. Check the Original or Previously Adjusted box if the schedule shows the figures as last adjusted or originally filed. In all cases, properly complete columns A, B and C of Form 1120X-ME, lines 6, 7b and 8d as they relate to Schedules A, B and C.

SCHEDULE A: Schedule A is for corporations engaged in interstate business. If this is the case, you **must** complete this schedule, even if you are not changing the figures from the original or as previously adjusted. See additional Schedule A instructions on pages 6 and 7.

SCHEDULE B: Complete this schedule even if figures are the same as originally filed or previously adjusted. The rate (line 25) is 29.7% for years beginning in 1991 and 1992 and 27% for years 1993 and after.

SCHEDULE C: If you had other credits on your original return that are still valid, you must enter those credits here, even if you are not making any adjustments. See additional Schedule C instructions on pages 7 and 8.

SCHEDULE D: A minimum tax credit is available for tax years beginning on or after January 1, 1992. This credit is modeled after the federal alternative minimum tax credit. Complete this schedule to calculate your credit. You must complete this schedule and enter line g on Form 1120X-ME, Schedule C, line 29k, even if you are not changing the figures from the original return or as previously adjusted.

IMPORTANT: IF ALL REQUIRED LINES AND SCHEDULES (INCLUDING FORM CR) ARE NOT COMPLETED, THE RETURN IS INCOMPLETE AND WILL NOT BE CONSIDERED A FILED RETURN. ALSO, PAGES 1-4 OF THE FEDERAL RETURN MUST BE ATTACHED TO YOUR MAINE CORPORATE RETURN.

2002 IMPORTANT CHANGES

30% BONUS DEPRECIATION ADD-BACK. 36 M.R.S.A. §§ 5122(1)(N), 5122(2)(Q), 5200-A(1)(N) & 5200-A(2)(M). For tax years beginning in 2002, 2003 and 2004, the net effect of the federal 30% bonus depreciation must be added back for state income tax purposes. One-third of the required add-back may be used to reduce taxable income for each of the three tax years beginning two years after the taxable year of the add-back. However, the add-back relating to 3-year property may be fully recovered in the tax year beginning two years after the taxable year of the add-back. All bonus depreciation claimed for tax year 2001 is allowed on the Maine return. *See* P.L. 2001, c. 559, Pt. GG, Sections GG-10, GG-12, GG-15, GG-18 & GG-26.

NET OPERATING LOSS. 36 M.R.S.A. §§ 5122(1)(H), 5122(2)(H), 5200-A(1)(H) & 5200-A(2)(H). For net operating loss carrybacks arising from taxable years beginning on or after January 1, 2002, the federal taxable income of the carryback year must be increased by the amount of the federal NOL carryback to that year. Federal taxable income may be decreased in the year or years following the year of the loss in an amount which in the aggregate does not exceed the add-back required by the previous sentence. The subtraction modification may not be used to reduce Maine taxable income below zero and must be claimed within the allowable carryover period for NOLs. *See* P.L. 2001, c. 559, Pt. J.

ALTERNATIVE MINIMUM TAX. 36 M.R.S.A. § 5203-A(1)(A). Maine alternative minimum tax law is amended to require that Maine positive income modifications under 36 M.R.S.A. § 5200-A(1) be taken into consideration in calculating the Maine minimum tax. This includes disallowances of NOL carrybacks and bonus depreciation amounts. This change may, for some taxpayers, result in a Maine minimum tax due when the federal tentative minimum tax is zero. Except as affected by the disallowance of any NOL carryback to tax years earlier than the two-year allowable Maine carryback period, this change applies to tax years beginning on or after January 1, 2002. *See* P.L. 2001, c. 559, Pt. GG, Section GG-19 & GG-26.

LONG-TERM CARE INSURANCE. 36 M.R.S.A. §§ 2525-A, 5122(2)(P) & 5217-C. The definition of a qualified long-term care insurance policy is expanded for purposes of the credit for employer-provided long-term care insurance benefits. Qualified policies now include, in addition to policies that meet the federal definition of a qualified long-term insurance contract, policies certified by the Maine Bureau of Insurance that do not meet the federal definition for a qualified long-term care insurance contract under the Internal Revenue Code. Previously, only policies meeting the federal definition for a qualified long-term care insurance contract qualified for the tax benefits. Applies to tax years beginning on or after January 1, 2002. *See* P.L. 2001, c. 679.

APPORTIONMENT FACTOR: PAYROLL FOR LEASED AND TEMPORARY EMPLOYEES. 36 M.R.S.A. §§ 5210 and 5211. The payroll factor for the apportionment calculation must now include 85% of amounts paid to an employee-leasing company for leased employees and 100% of amounts paid for temporary employees. Employee-leasing companies and temporary services companies will exclude from the payroll factor compensation paid to leased or temporary employees who are providing personal services for client companies. However, amounts received for leased or temporary employees must still be included in the sales factor calculation. Applies to tax years beginning on or after January 1, 2002. *See* P.L. 2001, c. 439, Pt. D.

HISTORIC REHABILITATION CREDIT. 36 M.R.S.A. § 5219-R. Clarifies that only expenditures for rehabilitation of certified historic properties incurred after December 31, 1999 qualify for the credit. This means that federal carryovers from years prior to 2000 cannot be used for Maine purposes. Applies to tax years beginning on or after January 1, 2001. *See* P.L. 2001, c. 526.

SEED CAPITAL TAX CREDIT. 36 M.R.S.A. § 5216-B. The amount of the Maine Seed Capital Tax Credit certificate available to investors is 40% of investments in qualified businesses. For investments in eligible businesses that are located in high-unemployment areas as determined by the Finance Authority of Maine ("FAME"), the credit percentage increases to 60% of investment. The credit is also expanded by increasing the eligible aggregate investment in any one business or for any private venture capital fund from \$1,000,000 to \$5,000,000 and increasing the aggregate investment made by an individual in any one business or any one business invested in by a private venture capital fund in any three consecutive calendar years from \$200,000 to \$500,000. In addition, the total aggregate investment eligible for tax credit certificates is increased as follows: up to and including calendar year 2002, from \$10,000,000 to \$11,000,000; up to and including calendar year 2003, from \$11,000,000 to \$14,000,000; up to and including calendar year 2004, from \$12,000,000 to \$17,000,000; up to and including calendar year 2005, the limit is \$20,000,000; up to and including calendar year 2006, the limit is \$23,000,000; up to and including calendar year 2007, the limit is \$26,000,000; and thereafter, the limit is \$30,000,000. The rate at which the credit must be claimed on the Maine income tax return of the investor is accelerated from 15% each year for six years and 10% in the seventh year to 25% in each year for four years beginning with the taxable year the investment is made. The credit program is added to the items included in the list of economic development incentives (5 M.R.S.A. § 13070-J), requiring businesses with eligible investors to submit a report to FAME disclosing investment, employment, payroll and sales. Annually, the Department of Economic and Community Development must report aggregate information regarding the credit to the legislature, using information provided by FAME. Changes in determining credit amounts apply to credit certificates issued on or after July 1, 2002 for investments made on or after July 1, 2002. *See* P.L. 2001, c. 642.

2002 IMPORTANT CHANGES, continued

NET OPERATING LOSS. 36 M.R.S.A. §§ 5122(1)(M), 5122(2)(P), 5200-A(1)(M) & 5200-A(2)(L). For NOLs arising from taxable years beginning or ending in 2001 which are carried back more than 2 years for federal income purposes in accordance with section 102 of the recently enacted federal Job Creation and Worker Assistance Act (PL 107-147), the federal taxable income of the taxpayer for taxable years preceding the year of the loss by more than 2 years must, for Maine income tax purposes, be increased by the amount of the net operating loss carried back to those years. The federal taxable income for the two taxable years preceding the year of the loss or for the taxable years within the allowable carryover period may be decreased in an amount which in the aggregate does not exceed the add-back required by the previous sentence. This subtraction modification, however, cannot be used to reduce Maine taxable income below zero. The modifications explained in this paragraph do not apply to certain small businesses and farmers who, under pre-existing federal law, were, for NOLs arising in taxable years beginning or ending in 2001, allowed to carry back the loss more than 2 years prior to the loss. *See* P.L. 2001, c. 559, Pt. GG, Sections GG-10, GG-12, GG-15, GG-18 & GG-26.

APPEAL OF TAX ASSESSMENT. 36 M.R.S.A. § 151. A taxpayer that fails to request reconsideration of a tax assessment within 30 days of receipt is barred from later requesting reconsideration of, or submitting appeal in Superior Court relating to, that assessment, even if the taxpayer subsequently pays the assessment and then requests a refund. Effective April 1, 2002. *See* P.L. 2001, c.583, Sec. 1.

TIMELY FILED RETURNS. 36 M.R.S.A. § 153. Currently, the US Postal Service postmark is used to determine whether a tax return or payment is timely filed or paid. The law now extends the application of the postmark date rule to other delivery service providers designated by the US Treasury Secretary in accordance with the Internal Revenue Code. To-date, these include Airborne Express, DHL Worldwide Express, Federal Express, and United Parcel Service. Effective April 1, 2002. *See* P.L. 2001, c.583, Sec. 2.

LIABILITY OF PURCHASER. 36 M.R.S.A. § 177(6). A person who acquires a business, or the stock in trade of a business, is required to withhold from the purchase price any unpaid Maine “trust fund” taxes (sales tax, use tax, gasoline tax, special fuel tax, recycling assistance fees and income tax withholding). The purchaser’s liability, however, is limited to the amount of the purchase price. The State Tax Assessor may issue an assessment against the buyer for unpaid trust fund taxes within six years from the date of the sale. Effective April 1, 2002. *See* P.L. 2001, c.583, Sec. 7.

INTEREST RATE. 36 M.R.S.A. § 186. Prior law tied the rate of interest applicable to tax overpayments or underpayments to the interest charged by Maine banks on commercial unsecured loans. Starting in 2003, the rate of interest for any calendar year equals the highest prime rate as published in the Wall Street Journal on September 1 of the preceding calendar year, or if that day falls on a holiday or weekend, the next succeeding business day, rounded up to the next whole percent plus 2 percentage points. Effective January 1, 2003. *See* P.L. 2001, c.583, Sections 9 and 24.